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SUBJECT: KADIMA'S LIVNI BAILS OUT IN FAVOR OF EARLY ELECTIONS

1. (SBU) Kadima chairperson Tzipi Livni on Sunday told President Peres that she was unable to form a coalition and recommended early elections. Livni, who ended her attempts to form a government only two days after the ultraorthodox SHAS and United Torah Judaism (UTJ) parties rejected her offers, has instructed the Kadima faction chairman to submit draft legislation to dissolve the Knesset and hold early elections on January 27. Kadima's preferred date is only one of several possibilities, as other draft dissolution bills are pending and Basic Law and other legal provisions suggest an alternative election date of February 10.

SHAS: THE FIRST DOMINO TO FALL

2. (U) Livni negotiated with SHAS, UTJ, and the Pensioners Party to avoid assuming the premiership with a narrow, left-leaning government, but the parties could not overcome several stumbling blocks. SHAS demanded nearly \$260 million in 2009 for child welfare benefits, but Livni refused to offer more than \$170 million. Livni also refused to submit to SHAS's demand that Jerusalem be excluded from any negotiations with the Palestinians which, together with the child allowances stalemate, prompted Rabbi Ovadia Yossef and the SHAS Council of Sages on October 24 to opt against joining the coalition. When SHAS pulled out of negotiations UTJ quickly followed, as UTJ leaders appeared interested in joining the government only if SHAS were also a member. Pensioners head Rafi Eitan, sensing the collapse of negotiations for a Livni-led government, on October 25 dismissed the option of joining a narrow or minority coalition that would include the left-wing Meretz party.

MISHANDLED NEGOTIATIONS OR PUTTING PRINCIPLES FIRST?

3. (U) Israeli leaders and pundits are commenting publicly about the strategic errors made by Kadima party chairperson Livni, in what may rank as the shortest coalition negotiations in Israel's history. No less a figure than President Peres on Sunday pointed out to Livni that he was surprised that she had not exhausted the negotiating period available to her for the purpose of forming a government. Responding to Peres' comment, Livni said that she had reached a point where it was clear that there were cases in which more time did not help in reaching a solution but only contributed to the uncertainty. The public, she claimed, was weary of what she called "intrigues" -- a term she has used in the past when referring to extortion tactics in Israel's political culture. Later, in a statement to the media, Livni said "there are prices that can be paid and prices that others are willing to pay only to become a prime minister in a paralyzed government." She added that "he who is willing to sell everything he believes in just to sit in that chair should not be sitting in it."

NEXT STEPS

4. (SBU) President Peres, in accordance with the Basic Law,

immediately began consulting with all the Knesset faction leaders to determine if there is another Member of the Knesset (MK) who could gain the support of a majority in parliament. We consider it very unlikely that there is such an MK, which means Peres probably will inform the Knesset Speaker on October 29 that he will not tap another MK to try to form a government. His declaration means that within 21 days MKs can request via majority vote that Peres assign a named MK the task of forming a government. If no request is made, as we expect, Peres would then inform the Speaker that he sees no possibility of a government being formed. Following such an announcement, the Knesset is deemed to have dissolved itself. Prime Minister Olmert would continue in his post and elections would be scheduled for February 10, according to the requirements in the Basic Law.

15. (U) Kadima, meantime, is looking for elections to take place even earlier. Kadima members are planning to submit this week legislation calling on the Knesset to dissolve itself and specifying January 27 as the date for elections. Several other dissolution bills have been drafted but have not been formally submitted.

CUNNINGHAM